



***Comptroller of the
State of New York***



***Treasurer of the
State of California***



***Treasurer of the
State of North Carolina***

**FOR IMMEDIATE RELEASE
January 15, 2004**

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**NORTH CAROLINA TREASURER MOORE, NEW YORK STATE
COMPTROLLER HEVESI, CALIFORNIA TREASURER ANGELIDES,
JOINED BY NEW YORK STATE AG SPITZER,
ANNOUNCE LANDMARK MUTUAL FUND PRINCIPLES
TO PROTECT INVESTORS AND PENSIONERS**

***Latest Multi-State Corporate Reform Initiative Seeks To Set National Benchmark for Mutual Fund
Industry Reporting, Compensation, Board Structure and Other Business Practices***

NEW YORK – North Carolina Treasurer Richard Moore, New York State Comptroller Alan Hevesi and California Treasurer Phil Angelides today announced the launching of a major initiative to protect investors and pensioners through a wide range of mutual fund reforms that the chief state investment officers say could become the market standard for the entire mutual fund industry.

New York State Attorney General Eliot Spitzer joined the three state chief investment officers at a news conference here to unveil the proposed Mutual Fund Protection Principles. Spitzer urged state investment and public pension fund officials nationwide to aggressively pursue innovative initiatives – like the one launched today by Moore, Hevesi and Angelides – to restore stability and integrity to a mutual fund industry rocked by recent reports of fraud, abusive trading practices and conflicts of interest. “I applaud my colleagues for their leadership on these critical issues,” Spitzer said. “The Principles outlined today will go a long way to protect shareholders.”

The three state chief investment officers say their aim is to use the “power of the purse” – their states’ and pension funds’ size and influence as large customers in the mutual fund marketplace – to spur mutual funds to comply with the Principles. Moore and Angelides said that compliance with the Principles would be a significant factor in determining whether a mutual fund would have the right to do business with their respective states – as well as any other states that adopt the tough new guidelines.

“In managing defined benefit and cash management plans, I will continue to apply close scrutiny to the mutual fund activities of our investment managers,” said North Carolina Treasurer Moore.

“Improprieties that undermine the integrity of investment operations or the overall management of the investment advisor will receive close scrutiny in deciding to hire or retain an investment advisor in a defined benefit or cash management program.”

As proposed, the new Mutual Fund Protection Principles call for a wide range of reforms to shareholder disclosure and reporting; mutual fund board structure; management and compensation reporting; and mutual fund disclosure of security holdings, trading costs and an accounting of “soft dollar” expenditures.

Generally speaking, the Mutual Fund Protection Principles would apply to all mutual funds hired by the states and public pension funds to handle a wide variety of pension programs, including 401(k), 403(b) and 457 plans.

“Our message today is simple and clear: if you are a mutual fund that wishes to do business with California, we expect you to adhere to the highest standards of disclosure and business practices,” said California Treasurer Angelides. “We are committed to rooting out the bad actors and fraudulent practices that have shaken the mutual fund markets and have harmed millions of families who have placed their savings in mutual funds.”

The Congress and the Securities and Exchange Commission are both now examining whether and how to reform the mutual fund industry. On Wednesday, the SEC proposed new rules that address some but not all of the issues in the Mutual Fund Protection Principles. For example, the SEC rule is close to the Principles on director independence and the SEC addresses broker-dealer conflict-of-interest. Moore, Hevesi and Angelides say that while they generally support the proposed SEC regulations, they urge the Commission to strengthen them and then adopt them as soon as possible. Meanwhile, the three state chief investment officers called on the mutual fund industry to voluntarily adopt the Mutual Fund Protection Principles without waiting for regulators to step in.

The Mutual Fund Protection Principles proposed today, for example, would require mutual funds to disclose to shareholders at least annually the actual charges debited from their accounts for management fees and other expenses. But under the proposals being discussed by Congress and the SEC, funds would only be required to disclose charges based on hypothetical accounts. In addition, the Mutual Fund Protection Principles would require mutual funds to offer meaningful “breakpoints,” or volume discounts, on fees they charge to shareholders. Those breakpoints would result in a sliding scale that reduces all management fees as the overall size of the particular fund grows. Today, these breakpoints typically are set too high for most shareholders to benefit. The Principles also would require a mutual fund to make public the rationale supporting its fee structure. The Congress and SEC proposals, as currently drafted, do not require meaningful breakpoints or the public disclosure of the rationale supporting fee schedules.

“The illegal actions that occurred at mutual fund companies must be curbed and reforms put in place immediately. Otherwise we risk further eroding the confidence of both small and large investors, who have already been discouraged by corporate scandals, and whose faith in the markets is key to sustaining an economic recovery,” said New York State Comptroller Hevesi. “The reforms Treasurer Moore has drafted will go a long way toward eliminating improper and unethical behavior at mutual fund companies that has cost stockholders millions of dollars.”

Today's effort by this group of chief state investment officers is the latest in a series of actions they have undertaken to restore credibility and investor confidence to the nation's financial markets and to help ensure the integrity of the state pension funds they help oversee. In 2002, they launched a new initiative – Investment Protection Principles that evolved into mandatory Investment Protection Standards – that today set out the toughest in the nation ethical standards for investment banks and broker-dealers doing business with the respective states.

“As with the Investment Protection Standards,” Angelides said, “we moved first and we are still waiting for the SEC to catch up to us. We want to make sure we keep the pressure on.” In California, he pointed out, both CalPERS and CalSTRS have since adopted the IPS, and an initial review of investment banks doing business with the State Treasurer's Office has indicated full compliance with the standards. “We have been here before,” Angelides said. “We have made a difference.”

Congress and the SEC have just begun to address these mutual fund issues. But the three state chief investment officers say it is time for them to act as consumers in the market. Congress and the SEC might move quickly, implementing tough standards, but there is no guarantee that they will act, or will act in a timely manner or in a manner aggressive enough to truly benefit taxpayers, shareholders and pensioners. Until they do, Moore, Hevesi and Angelides said they want to keep moving forward.

Moore, Hevesi and Angelides emphasized that they will be urging other public and private pension funds to adopt the reforms announced today.

Moore is the sole trustee of the North Carolina Public Employees Retirement System, with assets of more than \$60 billion, and is responsible for the nation's largest public 401(k) plan with \$2.3 billion in assets. Hevesi is the sole trustee of the New York State Common Retirement Fund, the nation's second largest public pension fund with assets of \$106 billion.

Angelides sits on the board of the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) – the nation's first and third largest public pension funds, respectively – with combined assets of \$250 billion. The Treasurer is also on the ScholarShare Investment Board, which administers the State's nearly \$1 billion college savings plan. Angelides will recommend that all three boards adopt these Mutual Fund Protection Principles. In addition, Angelides has written a letter to Governor Arnold Schwarzenegger, urging the Schwarzenegger Administration to apply the Principles to the nearly \$5 billion in savings plan assets administered by the State Department of Personnel Administration.

Attachment: Mutual Fund Protection Principles



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Mutual Fund Protection Principles

Shareholder Reforms

Billing: Mutual fund shareholders shall receive at least annually a statement of the charges, expressed in dollars, debited from their account for management, 12b-1 and other distribution expenses, and other expenses.

Fees: The management fee schedule shall be reasonable and shall contain breakpoints that provide meaningful economies of scale to shareholders. In arriving at the fee schedule, the board of directors will conduct a comparative analysis using other funds, including fees charged to institutional accounts by the advisor. The mutual fund will furnish the board with an itemization of the expenditures associated with investment advisory services, marketing and advertising, operations and administration and general overhead, as well as the pre-tax profit.

- (i) Only the independent directors may vote to approve fees.
- (ii) The rationale and analysis supporting the fee schedule, including the various items of expense covered by the fee, will be published in the mutual fund's annual report.

Board Reform

Independence: At least three-quarters of the mutual fund board and the chairman shall be independent directors and shall not have had any material business or employment relationships with the fund company, advisor or any service provider and shall not have had such a relationship for a period of five years prior to the appointment.

Meetings & Resources: The independent directors, or an appropriate subcommittee composed of independent directors will meet at least annually with the chief compliance officer of the fund and advisor, as well as the independent auditor without management present. The board shall hire its own staff or retain appropriate advisors.

Manager Reform

Compensation: The mutual fund will disclose in the annual report, the compensation of the portfolio manager, as well as the methods and factors used to derive compensation. If a team manages the mutual fund, the compensation of the top three managers on the team and total compensation to the team will be disclosed.

Ownership: Each portfolio manager and the senior management of the advisor shall reveal in the annual report, the number of shares owned in the fund together with all purchases and sales in the fund for the 12-month prior period.

Sale of funds: A portfolio manager and any other research, marketing or senior executive of a mutual fund company or the advisor who purchases shares in one of its mutual funds will hold those shares, with the exception of money market funds, for at least 12 months.

Fund Disclosure

Holdings: (i) A mutual fund will disclose its security holdings on a quarterly basis (with a maximum delay of 45-days). (ii) If a mutual fund company discloses any holdings, fundamental characteristics or other information to consultants, brokers, selected shareholders or other 3rd parties, the information shall be simultaneously posted on the fund's web-site or web-cast.

Trading costs: A mutual fund will disclose in its annual report information on the trading costs of the fund, including turnover, and a schedule of commissions paid to and shares traded with broker dealers.

Soft dollars: A mutual fund will disclose in its annual report, the amount of soft dollars paid by the fund, together with a schedule of the brokers utilized to execute the trades and a list of the soft dollar services purchased through the trades as well as the net credit or debit balance with each such broker.

Professional Staff: A mutual fund will disclose in its annual report all investment professionals, in addition to the portfolio manager, who are involved with the management of the mutual fund, any turnover among such personnel in the last 12 months, and all other products or mutual funds managed by the portfolio managers.

January 15, 2004

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Mutual Fund Protection Principles in California

California Treasurer Phil Angelides, joined by New York State Attorney General Eliot Spitzer, New York State Comptroller Alan Hevesi and North Carolina Treasurer Richard Moore, proposed Mutual Fund Protection Principles on January 15, 2004. The Treasurer will now seek the approval of the Principles by three boards on which he sits – the California Public Employees' Retirement System (CalPERS), California State Teachers' Retirement System (CalSTRS) and ScholarShare Investment Board (ScholarShare). In addition, Angelides has written a letter to Governor Arnold Schwarzenegger, urging the Schwarzenegger Administration to apply the Principles to the savings plans administered by the State Department of Personnel Administration. Under the Treasurer's proposal, the Principles would then apply to:

- Any firm that manages defined contribution plans for the State. These plans combined represent more than \$6 billion in State investments. Within CalSTRS, the Principles would apply to firms managing the teachers' 403 (b) plan, and within CalPERS, the Principles would apply to employees' 457 plans that CalPERS manages on behalf of California's public agencies. In the State Treasurer's Office, the principles would apply to the ScholarShare program (California's college savings plan). And at the State Department of Personnel Administration, the Principles would apply to a 457 plan and a 401(k) plan.
- Any CalPERS or CalSTRS money manager who also has mutual fund assets, as part of the review of the overall management of the money manager, where there is no clear separation between the manager's institutional account and retail accounts. Today, active managers invest a combined \$74 billion on behalf of CalPERS and CalSTRS. The Principles would build on CalPERS' and CalSTRS' continuing scrutiny of the mutual fund activities of their money managers.

CalPERS:

- 457 Plan: \$279.3 million invested for 15,689 participants (from 456 agencies).
- Active managers: \$27 billion invested on behalf of 1.4 million CalPERS members. CalPERS contracts with 58 different money managers in domestic and international equity and fixed income.

CalSTRS:

- 403 (b) plan: \$76 million invested for 3,193 participants. Participants are allowed to choose from 12 core mutual fund managers or self-manage by selecting from among 4,000 mutual funds.
- Active managers: \$47 billion invested on behalf of 714,436 CalSTRS members. CalSTRS contracts with 39 different money managers in domestic, international and fixed income.

State Treasurer's Office:

- ScholarShare Plan: \$950 million invested for 115,137 participants.

State of California:

(Savings Plus Program administered by the Department of Personnel Administration; approximately 140,000 participants in both plans combined)

- 457 Plan: \$3.2 billion invested
- 401(k) Plan: \$1.6 billion invested



PHILIP ANGELIDES
Treasurer
State of California

January 15, 2004

Governor Arnold Schwarzenegger
State Capitol
Sacramento, California 95814

Dear Governor Schwarzenegger:

As California's State Treasurer and as a trustee of more than \$300 billion in state pension and taxpayer funds, I have taken an active role in advancing corporate reform – using the power of California's market presence to fight for reforms that will help restore the faith and confidence of investors in our financial markets.

The systematic breakdown of ethics and standards of conduct in the financial marketplace has shaken the very foundations of our financial institutions, damaged our economy, and harmed millions of Americans. Recently, allegations of fraud and misconduct have fundamentally shaken Americans' perceptions of, and faith in, the mutual fund market. Those allegations include market timing by mutual fund employees and late-trading in fund shares; payment of higher commissions or offers of other incentives to brokers for selling proprietary funds to investors rather than funds that may be more suitable to an investor's needs; and the inappropriate concealment of breakpoint discounts.

In order to restore investor faith in the mutual fund market, it is imperative that steps be taken to prevent the improper and illegal market practices that have recently come to light and to bring more transparency to mutual funds. Investors must have true and accurate information about fund shares and costs and mutual fund managers and broker-dealers must follow fair and equitable trading practices and adhere to the highest standards of ethics and disclosure.

Today, I am joining with New York State Attorney General Eliot Spitzer, New York State Comptroller Alan Hevesi and North Carolina Treasurer Richard Moore to announce our support for the enclosed set of Mutual Fund Protection Principles that will bring greater transparency and investor protection to the mutual fund market. We will be asking states across the country to adopt these principles and apply them in their decisions to retain or hire mutual fund managers. In California, I will be asking the California Public Employees' Retirement System (CalPERS)

Governor Schwarzenegger
January 15, 2004
Page 2

and the California State Teachers' Retirement System (CalSTRS) to adopt these principles, as well as the ScholarShare Investment Board, which oversees the State's 529 college savings program.

I urge you to adopt these principles with respect to the Savings Plus Program administered by the Department of Personnel Administration (DPA). I have asked Deputy Treasurer Ted Eliopoulos to contact your DPA staff to provide a copy of the principles and answer any questions about their substance.

This new effort by this group of institutional investors is the latest in a series of actions we have undertaken to restore credibility and investor confidence to our financial markets and to protect the state and pension fund portfolios we oversee. Just last year, I joined with New York State's Attorney General Spitzer, New York State's Comptroller Hevesi and North Carolina Treasurer Moore to demand higher standards of conduct in the operation of investment banks and broker dealers who do business with our State. This office adopted the Investment Protection Standards (the "IPS") – setting out the toughest in the nation ethical standards for financial firms doing business with California. Both CalPERS and CalSTRS have also since adopted the IPS.

I urge you to join institutional investors from across the nation in demanding the highest standards of ethical conduct and transparency in the mutual fund marketplace for the benefit of California taxpayers, investors and pensioners.

Thank you for your consideration.

Sincerely,



Phil Angelides
State Treasurer

Enclosure

cc: Michael Navarro, Acting Director, DPA